

Message Text

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PAGE 01 LISBON 04850 010624Z
ACTION EUR-12

INFO OCT-01 EB-08 ISO-00 /021 W
-----124705 020758Z /14
R 301537Z JUN 78
FM AMEMBASSY LISBON
TO SECSTATE WASHDC 6193
INFO USDOC WASHDC

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E.O. 11652: N/A
TAGS: BEXP PO
SUBJECT: MAJOR EXPORT PROJECTS: REASSESSMENT OF PLANNED
STEEL MILL EXPANSION

1. GOP IS REASSESSING ITS PLANS FOR EXPANSION OF PORTUGAL'S NATIONAL STEEL MILL (SIDERURGIA NACIONAL - SN). THE ORIGINAL PROJECT CALLED FOR PRODUCTION CAPACITY TO EXPAND FROM 600,000 TONS TO ABOUT 2.5 MILLION TONS PER YEAR. THAT TARGET WAS SUBSEQUENTLY SCALED DOWN TO 1.6 MILLION TONS PER YEAR. THE EXPANSION WILL BE DESIGNED TO UTILIZE LARGE IRON ORE DEPOSITS IN NORTHERN PORTUGAL (MONCORVO), HERETOFORE CONSIDERED UNECONOMIC DUE TO LOW IRON CONTENT. OVERALL PROJECT WOULD INVOLVE THE FOLLOWING COMPONENTS: 1.1-1.5 MILLION TON/YEAR CONCENTRATE AND PELLETIZING PLANT, A 1 MILLION TON BLAST FURNACE, A 1 MILLION TON OXYGEN MELTING SHOP, CONTINUOUS CASTING MACHINES FOR SLABS AND BILLETS, A 400,000 TON WIRE ROD MILL, A 350,000 TON CAPACITY SECTION MILL, AND AUXILIARY INSTALLATIONS.

2. INCREASINGLY TIGHT DOMESTIC CREDIT CEILINGS - NECESSITATED BY RECENTLY ADOPTED STABILIZATION PROGRAM - HAVE CAUSED GOP TO RE-EVALUATE ITS MAJOR DEVELOPMENT PROJECTS, SUCH AS THE STEEL EXPANSION PLAN. OVER THE LAST TWO MONTHS, SN OFFICIALS HAVE CANDIDLY ACKNOWLEDGED THAT THE STEEL PROJECT- CONSIDERED FIRM SOME TWO YEARS AGO - MAY NOW BE POSTPONED

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OR PHASED OVER A LONGER TIME FRAME. IN A MEETING LAST APRIL 28, SN PRESIDENT CONFIRMED TO US THAT SN HAS BEEN INSTRUCTED NOT TO MAKE ANY COMMITMENTS TO POTENTIAL SUPPLIERS, PENDING A GREEN LIGHT FROM THE GOVERNMENT. THE GOP COUNCIL OF MINISTERS PRESENTLY HAS THE PROJECT UNDER CONSIDERATION AND IS EXPECTED TO REACH A DECISION IN THE NEAR FUTURE.

3. PROSPECT OF PORTUGUESE INTEGRATION INTO EC, WHOSE STEEL SECTOR CURRENTLY MARKED BY EXCESS CAPACITY, HAS CAUSED FURTHER RETHINKING OF THE SN EXPANSION PROJECT. GOP IS PREPARING A MEDIUM TERM PLAN (1979-84), INCLUDING INVESTMENT PROJECTS, FOR SUBMISSION TO THE PORTUGUESE LEGISLATURE NEXT OCTOBER. GOP OFFICIALS ACKNOWLEDGE THAT PLAN MUST CONSIDER IMPLICATIONS OF EVENTUAL PORTUGUESE MEMBERSHIP IN THE COMMUNITY. IN PARTICULAR, COMMITMENTS TO PROJECTS IN SENSITIVE SECTORS SUCH AS SHIPBUILDING, TEXTILES, PETROCHEMICALS, AND STEEL WILL BE EXAMINED IN CONTEXT OF OUTLOOK FOR THESE SECTORS IN EC MEMBER COUNTRIES.

4. SN OFFICIALS NOTE THAT FURTHER DELAYS IN THE LONG PENDING DECISION ON THE SN EXPANSION PROJECT WILL HAVE SERIOUS IMPLICATIONS BEYOND THE STEEL SECTOR. THE FATE OF NUMEROUS FINANCIALLY TROUBLED METALWORKING FIRMS HINGES UPON THE FINAL DECISION. A GREEN LIGHT FOR THE PROJECT WOULD GIVE THESE FIRMS A NEW LEASE ON LIFE.

5. COMMENT: SEVERAL U.S. FIRMS HAVE SHOWN INTEREST IN THE SN PROJECT. KOPPERS, FOR EXAMPLE, BID ON BLAST FURNACE AND REPORTEDLY IS STUDYING AN OFFER FOR THE CONTINUOUS CASTING MACHINES. EMBASSY WILL CONTINUE TO REPORT GOP STEEL EXPANSION PLANS.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: n/a
Control Number: n/a
Copy: SINGLE
Draft Date: 30 jun 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 20 Mar 2014
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978LISBON04850
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D780273-0205
Format: TEL
From: LISBON
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t1978064/aaaaacvi.tel
Line Count: 95
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 8ca14685-c288-dd11-92da-001cc4696bcc
Office: ACTION EUR
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 2
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 05 may 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: N/A
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2280784
Secure: OPEN
Status: NATIVE
Subject: MAJOR EXPORT PROJECTS: REASSESSMENT OF PLANNED STEEL MILL EXPANSION
TAGS: BEXP, PO
To: STATE
Type: TE
vdkgvwkey: odbc://SAS/SAS.dbo.SAS_Docs/8ca14685-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014